MONDAY FUNDIE

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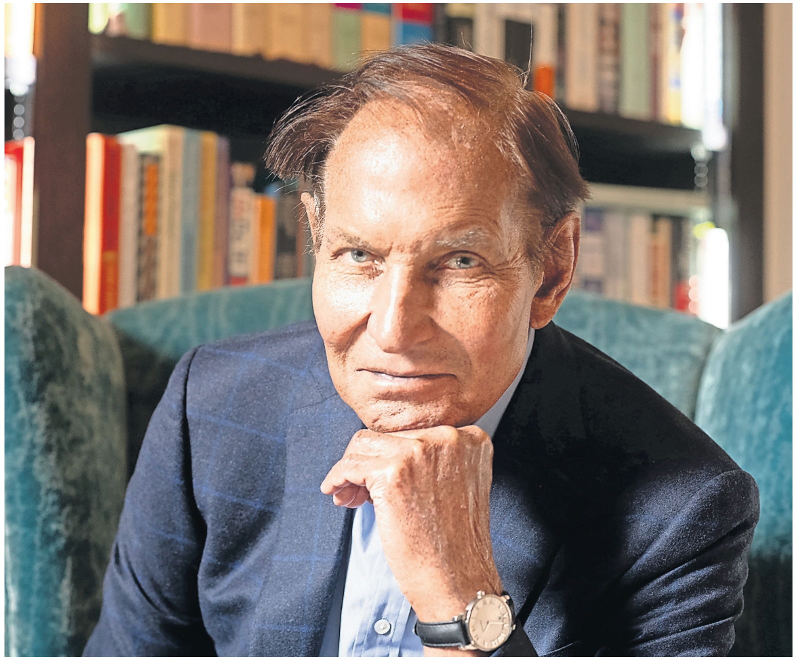

This veteran has been calling market turning points for half a century. Here are three of his current picks.
PHOTO: GRAINNE QUINLAN

Lessons learnt from Buffett and Soros

Jonathan Shapiro

Kiril Sokoloff has made a career out of getting the big calls right. And he's learnt from the world's best investors to have the courage of his convictions.

"A good investor should get to know what one is good at, and concentrate on a single purpose," Sokoloff tells *The Australian Financial Review* from London, where he is based. That approach, he says, was gleaned from Warren Buffett.

It was George Soros who taught him to go all in if he believes he is right. He recalls how Soros, who was in semi-retirement, managed to generate better returns than his partner Stan Druckenmiller, even though Druckenmiller was the one coming up with the trades.

The reason? "George Soros was good at sizing his bets."

Sokoloff has cemented a reputation for being timely and accurate in his 50-year career. He began as an uninspired commercial banker who tracked what the world's best investors were doing in the hope he could become one. He trawled through the quarterly filings where investment managers disclose their major holdings.

These Schedule 13-D documents helped him identify US stocks trading at a fraction of their break-up value. Sokoloff began recommending takeover targets and one-by-one they were snapped up.

That's why his firm, officially founded in 1983, is named 13-D Research. It provides insights to institutional investors and some of the world's top traders.

Today, it has three big calls: gold will outperform the S&P 500 and global sharemarkets; the shift towards hard assets will accelerate; and China will be the best-performing sharemarket. Chinese stocks have "run out of sellers", Sokoloff says.

That is reflected by an asset allocation of one-third in gold, silver and mining stocks, one-quarter in commodities and related sectors, 18 per cent in Chinese stocks and 10 per cent in bitcoin.

Sokoloff has battled hearing issues since he was a teenager. But he credits this affliction with turning him into a voracious reader and sharpening his intuition.

His breakthrough came in 1977 when Republican congressman Jack Kemp crusaded to cut taxes and deregulate the economy. Sokoloff was convinced it would have the effect of unleashing a bull market in equities.

The same went for bonds. In 1983, he co-authored a book with Gary Shilling, *Is Inflation Ending? Are You Ready*? Much of what he wrote then, he says, still holds true.

His next big call came in 1989. In the aftermath of the Tiananmen Square massacre, China was a pariah and investors had all but abandoned the region. Hong Kong stocks were trading at six times earnings and yielding 5 per cent.

The buy signal, he says, came when Chinese leader Deng Xiaoping was reported to have said "to get rich is glorious". Though there is some conjecture whether he did say that, the early 1990s marked the beginning of China's economic ascendancy.

Sokoloff moved to Hong Kong to set up an Asia-focused hedge fund, made a lot of money very quickly, and in 1994 shut up shop fearing it was all moving too fast.

His big insight of the early 2000s, living in the US in the wake of the dotcom bust, was that while the world was in an economic recession, commodity prices were actually going up. "That should not happen," he says. The driving force was China, and Sokoloff piled into gold at about $US250 an ounce and oil at about $U30 a barrel.

Perhaps his most important call arrived in September 2020 when about $US20 trillion of government bonds traded with interest rates below zero. It seemed like the end of interest rates.

Paying governments to borrow money was peak absurdity, he says. Bonds were as risky as they had ever been. Sokoloff deferred to the theory of his late friend Sidney Homer, who had published *A History of Interest Rates* in 1965. Homer, who died in 1983, believed history was inflationary and periods of deflation were an anomaly.

So, what does Sokoloff make of economist Larry Summers' theory of secular stagnation, which holds that technology and innovation will lower costs and keep prices in check?

Yes, technology is deflationary, Sokoloff agrees. But that is not enough to offset the inflationary forces unleashed by fiscal deficits, demographics, entitlements and shortages of labour and commodities.

That realisation has profound implications. One is that the standard 60:40 asset allocation of stocks and bonds will lose relevance. Another is that the consumer is no longer king: the producer is. This is why he is bullish on real assets and natural resources.

"Australia has a lot of mining assets, so it's very bullish for Australia," he says.

Gold has been a favourite of 13-D Research, guided by the belief that US sanctions on Russia forced central banks to reconsider reserve assets held in US dollars. Donald Trump's tariffs will reduce the global supply of dollars, meaning central banks hold more gold.

Sokoloff is an enthusiastic investor of ASX-listed gold miner Southern Cross Gold. At a UBS conference he described it as "the richest miner in the world".

"The more we explore in this deposit, and the deeper we go, the more gold we find," he says.

Southern Cross also has deposits of antinomy, a mineral that is used to harden metals and is vital in the construction of weapons.

The world is now a multipolar and highly transactional place, Sokoloff says, mostly because of Trump's agenda. But it's not a given that the US is better off competing with the rest of the world rather than overseeing a globalised order.

What worries him is the emergence of the "alliance of the aggrieved" spearheaded by Russia and China.

A more aggressive US could bring them closer together and could force the European Union to take bolder measures to reform and gear itself for economic growth, he says.

"Trump's policies will finally force the Europeans to unify their banking and market structures," he predicts.

Sokoloff is a close friend of some of Trump's key hires. Former hedge fund manager Scott Bessent, who worked under Druckenmiller and Soros, will be the next treasury secretary. US government bond yields fell on the news in the hope he will be a conventional appointment.

"Bessent is a student of economic history. He knows what to do and will put a brake on the excesses."

But Sokoloff is battling to work out just how dominant the US can be. It already accounts for 70 per cent of the global sharemarket's value.

How much bigger can it get? Is the rest of the world happy to feed the US corporate giants for nothing in return?

Sokoloff doesn't have the answer yet.